

Message Text

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TO SECSTATE WASHDC PRIORITY 2553
INFO AMEMBASSY COPENHAGEN
AMCONSUL LENINGRAD
AMEMBASSY MOSCOW
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY STOCKHOLM

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SUBJECT: STRIKE CANCELED AT LAST MOMENT FOLLOWING NEW GOVERNMENT
ECONOMIC PACKAGE AND COMPROMISE ON WAGES

REF: (A) HELSINKI 818, (B) HELSINKI A-16,

1. SUMMARY: THE GENERAL WORK STOPPAGE CALLED BY THE
CENTRAL LABOR FEDERATION (SAK) FOR MARCH 31 (REFTEL) WAS
CANCELED LATE MARCH 30 FOLLOWING ELEVENTH-HOUR SCRAMBLING
BY THE GOVERNMENT, WHICH PUT FORTH A NEW ECONOMIC PACKAGE
TO ADJUST FOR EFFECTS OF DEVALUATION AND URGED ITS
INCOMES POLICY MEDIATOR TO SEEK AGREEMENT BETWEEN THE
SAK AND THE EMPLOYERS ORGANIZATION (STK). THE TWO SIDES,
INSPIRED BY A PRESIDENTIAL APPEAL AND A GENERAL DESIRE
TO AVOID SPRING PARLIAMENTARY ELECTIONS, AGREED IN EFFECT
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TO RESTORE PART OF THE WAGE INCREASES POSTPONED IN THEIR
DECEMBER AGREEMENT (REFAIR) AND TO REDUCE TAX
BURDENS ON INDUSTRY AND CONSUMERS. THE WAGE
COMPROMISE WAS OPPOSED BY THE COMMUNISTS AND
CRITICIZED BY THE CENTER PARTY, SO THAT
WHILE THE GOVERNMENT HAS SURVIVED THIS CRISIS ITS
INTERNAL STRAINS CONTINUE TO BUILD. END SUMMARY.

2. AS THE STRIKE DEADLINE APPROACHED AFTER THE EASTER HOLIDAY WITH NO MOVEMENT TOWARD SETTLEMENT OF THE SAK'S CLAIM FOR DEVALUATION COMPENSATION, THE GOVERNMENT FINALLY PRODUCED A NEW ECONOMIC PACKAGE DESIGNED TO PROVIDE SOME COMPENSATION BUT WITHOUT WAGE INCREASES. HOWEVER, THE SAK, PARTLY ON PRINCIPLE, INSISTED THAT THE EMPLOYERS, AS WELL AS THE GOVERNMENT, SHARE PART OF THE COMPENSATION COSTS OR FACE THE STRIKE. ON MARCH 30, PRESIDENT KEKKONEN REPORTEDLY PASSED THE WORK THAT HE WOULD DISSOLVE PARLIAMENT IF NO SETTLEMENT WERE FOUND, A MOVE WHICH WOULD HAVE MEANT THE FALL OF THE GOVERNMENT AND THE HOLDING IN JUNE OF NEW PARLIAMENTARY ELECTIONS, WHICH NO PARTY REALLY WANTS BEFORE THE SUMMER. FACED WITH THIS DILEMMA, THE GOVERNMENT CALLED ON INCOMES POLICY MEDIATOR LIINAMAA, WHO ARRANGED A MELODRAMATIC LAST-MOMENT SETTLEMENT WHICH RESOLVED THE IMPASSE.

3. THE LIINAMAA COMPROMISE INVOLVES A 1.5 PERCENT WAGE INCREASE ON MAY 1ST, WHICH AVERAGES APPROXIMATELY 22 FINISH PENNIES PER HOUR INSTEAD OF THE 30 PENNIES SOUGHT BY THE SAK. HOWEVER, THIS INCREASE IS NOT AN ADDITION TO ALREADY NEGOTIATED WAGES BUT RATHER A RESTORATION OF PART OF THE WAGE

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INCREASE POSTPONED AS PART OF THE ECONOMIC MEASURES OF DECEMBER 1977 (REFAIR). THIS INCREASE WILL BE SUBTRACTED FROM THE AGREED 2.5 PERCENT INCREASE DUE EARLY IN 1979, WHILE THE ORIGINAL SPRING 1978 INCREASE OF THREE PERCENT WILL BE PAID THIS COMING FALL AS AGREED IN DECEMBER. WITH ALL THIS SLEIGHT OF HAND, THE TOTAL WAGE INCREASES OVER THE LIFE OF THE CONTRACT WILL EVENTUALLY REACH APPROXIMATELY THE SAME 14.5 PERCENT PROJECTED BY LIINAMAA LAST SPRING. LIINAMAA ARRANGED, IN ADDITION TO MOVING UP THE WAGE HIKE SCHEDULE, TWO ADDITIONAL HOLIDAYS, THE CHRISTMAS AND EASTER SATURDAYS, PLUS A COMMITMENT BY THE STK TO DISCUSS FURTHER JOB-SECURITY GUARANTEES WITH THE SAK.

4. WHILE THE LIINAMAA COMPROMISE DID NOT PROVIDE THE SPECIFIC WAGE COMPENSATION FOR DEVALUATION DEMANDED BY THE SAK, THE SOCIAL DEMOCRATIC MAJORITY IN THE SAK VOTED TO ACCEPT IT, EXPLAINING THAT THE EMPLOYERS HAD SHOWN SOME FLEXIBILITY ON WAGES. THE COMMUNISTS, HOWEVER, VOTED AGAINST THE COMPROMISE, WHICH CARRIED ANYWAY. THE STK, ACCORDING

TO A PUBLIC STATEMENT, ACCEPTED THE LIINAMAA PROPOSAL IN
ORDER TO AVOID LABOR UNREST, A POLITICAL CRISIS AND
ENDANGERING THE GOVERNMENT'S ECONOMIC PROGRAM

5. THE ECONOMIC PACKAGE AGREED ON BY THE GOVERN-
MENT AND BANK OF FINLAND AS PART OF THE SETTLEMENT
IS INTENDED TO RESTRAIN INFLATION, MAINTAIN
DISPOSABLE INCOME, STIMULATE INVESTMENTS, AND
REVIVE EMPLOYMENT. THESE ARE THE MAJOR POINTS:

A. THE BANK OF FINLAND WILL MAINTAIN
THE EFFECTIVE RATE OF FEBRUARY'S DEVALUATION AT
5.5 - SIX PERCENT, RATHER THAN THE EIGHT PERCENT
ANNOUNCED, AND WILL LOWER THE GENERAL RATE OF
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INTEREST BY ONE PERCENTAGE POINT. TO AVOID RAISING DAIRY
PRICES, TURNOVER TAXES FOR THE INDUSTRY WILL BE
REDUCED. THE VOLUNTARY PRICE CONTROLS ACCEPTED
BY INDUSTRY AS PART OF THE DECEMBER PACKAGE WILL
CONTINUE AS BEFORE TO FEBRUARY 1978, BUT RELAXED
TO PERMIT WAGE AND SALRY INCREASES DUE TO THIS
SETTLEMENT TO BE PASSED ON. HEALTH AND NATIONAL
PENSION INSURANCE PAYMENTS OF EMPLOYEES WILL BE
LOWERED FROM JULY THROUGH DECEMBER 1978. THESE
MEASURES ARE INTENDED TO RELIEVE INFLATIONARY
PRESSURES AND SUPPORT HOUSEHOLD INCOMES, WHICH HAVE
FALLEN SLIGHTLY IN REAL TERMS OVER THE LAST TWO

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YEARS. IN ADDITION, EMPLOYER CONTRIBUTIONS TO
THE SOCIAL SECURITY SYSTEM ARE REDUCED UNTIL YEAR'S
END.

B. A SECOND SET OF ITEMS IS AIMED AT STIMU-
LATING SAGGING INDUSTRIAL INVESTMENTS AND EMPLOY-
MENT. THE HOUSING CONSTRUCTION INDUSTRY WILL
HAVE ITS TEMPORARY EXEMPTION FROM THE TURNOVER
TAX EXTENDED BY FIVE MONTHS, AND EQUIPMENT AND MACHINERY
INVESTMENTS WILL ALSO BE PROMOTED THROUGH A 50
PERCENT REDUCTION IN THE TURNOVER TAX. AN ADDITIONAL
FMK 100 MILLION WILL BE APPROPRIATED FOR USE
AS AN INVESTMENT AID FOR SELECTED INDUSTRIES. IN
TURN, INDUSTRIAL ASSOCIATIONS ARE EXPECTED TO
ENCOURAGE MEMBER COMPANIES TO INCREASE THEIR
INVESTMENTS. MUNICIPALITIES AND TOWNSHIPS WILL
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BE THE RECIPIENTS OF A FMK 300 MILLION
GOVERNMENT LAON FOR INVESTMENTS IN LOCAL ENERGY AND
WATER RESOURCES PROJECTS IN THE WINTER 1979-80
SEASON. IN ADDITION, A PROGRAM FOR INCREASED
PUBLIC INVESTMENTS WILL BE DRAFTED FOR IMPLEMENTA-
TION IN 1979.

C. IN A SERIES OF MEASURES AIMED AT ALLEVIATING
THE STRAINS OF UNEMPLOYMENT, THE SO-CALLED
PARENTS' LEAVE WILL BE EXTENDED UP TO 198 WORKING
DAYS, THE UPPER AGE LIMIT FOR UNEMPLOYMENT COMPENSA-
TION LOWERED (WHICH WILL PLACE ADDED BURDENS
ON THE NATIONAL PENSION INSTITUTE) AND THE
LIQUIDITY OF UNEMPLOYMENT FUNDS ASSURED WITHOUT
RAISING EMPLOYER CONTRIBUTIONS. TO FINANCE THESE
MEASURES, ALCOHOL AND TOBACCO PRICES WILL BE RAISED
BY ABOUT FIVE PERCENT, HARD ON THE HEELS OF AN
EARLIER RISE THIS YEAR.

D. THE GOVERNMENT PLANS TO FINANCE THESE MEASURES BY TAKING A FMK 700 MILLION LOAN FROM THE BANK OF FINLAND (A STEP PRIVATELY CRITICIZED AS TANTAMOUNT TO PRINTING MONEY). GOVERNOR MAUNO KOIVISTO OF THE BANK OF FINLAND COMPLICATED THE LABOR SETTLEMENT NEGOTIATIONS BY ANNOUNCING THAT THE BANK OF FINLAND WOULD NOT GRANT SUCH A LOAN IF THE SAK DEMAND FOR A WAGE INCREASE WERE ACCEDED TO. APPARENTLY, THE SETTLEMENT REACHED IS ACCEPTABLE TO KOIVISTO.

6. PRIME MINISTER KALEVI SORSA STATED LAST NIGHT, AFTER ANNOUNCING THE SETTLEMENT, THAT IT WAS TIME FOR COMMERCE AND INDUSTRY TO GIVE UP ITS QUOTE UNCLASSIFIED

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GLOOMY DESPAIR UNQUOTE. ACCORDING TO SORSA, THE RATE OF INFLATION HAS SLOWED AND THE COMPETITIVE CAPABILITIES OF FINNISH COMPANIES HAVE IMPROVED SUBSTANTIALLY. THE CURRENT ACCOUNT HAS BECOME STABILIZED AND THERE IS AN EASING IN THE MONEY MARKETS. SORSA OPTIMISTICALLY BELIEVES THAT INDUSTRY'S COMPETITIVENESS HAS IMPROVED TO THE POINT WHERE THE MAIN WORRY IS MAINTAINING IT. SAK CHAIRMAN PEKKA OIVIO SAID THAT THE SETTLEMENT WAS AN HONORABLE WAY OUT OF A DEAD END AND THAT THE MAJORITY OF SAK'S PROPOSITIONS WERE PUSHED THROUGH, TO ITS SATISFACTION. COMMUNIST MINISTER OF LABOR ARVO AALTO TOOK AN EVEN ROSIER VIEW THAN SORSA IN CLAIMING THAT INDUSTRY'S COMPETITIVENESS HAS BEEN RAISED TO THE HIGHEST LEVEL OF THE POST-WAR ERA. HE NOTED THAT, THOUGH WORKERS MIGHT BE DISSATISFIED WITH THE SETTLEMENT, EMPLOYERS WERE COMPELLED TO COMPROMISE FROM THEIR ORIGINAL POSITIONS. MINISTER OF AGRICULTURE AND FORESTRY JOHANNES VIROLAINEN WARNED THAT THE 1-1/2 PERCENT WAGE HIKE WILL HAVE TO BE EXTENDED TO AGRICULTURAL INCOMES IN NEXT FALL'S NEGOTIATIONS.

7. COMMENT: THIS IS A TYPICALLY COMPLICATED FINNISH INCOMES PACKAGE, WHOSE ECONOMIC EFFECTS ARE HARD TO ESTIMATE (AND THEIR ACCEPTABILITY THEREBY ENHANCED).

A. THE COMPETITIVENESS OF FINNISH EXPORTS WILL SUFFER FROM THE WAGE AND SALARY INCREASES AS WELL AS FROM THE COMMITMENT BY THE BANK OF FINLAND TO LIMIT THE DEVALUATION OF FEBRUARY 16 TO A MAXIMUM OF 5.5 - SIX PERCENT RATHER THAN THE ORIGINALLY ANNOUNCED EIGHT PERCENT. ON THE OTHER

HAND, INDUSTRY WILL BENEFIT FROM THE TEMPORARY
TURNOVER TAX RELIEFS FOR PLANT AND EQUIPMENT AND
FROM THE REDUCTION IN DOMESTIC INTEREST RATES
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(THOUGH FINNISH FIRMS WITH ACCESS TO OVERSEAS
FINANCIAL MARKETS WILL CLEARLY CONTINUE TO PREFER
THEM). THE CONFEDERATION OF FINNISH INDUSTRIES
ESTIMATES THAT INDUSTRY WILL GAIN FMK 600
MILLION FROM THE ECONOMIC PACKAGE, HALF OF WHICH THE LABOR
SETTLEMENT WILL SWALLOW.

B. THE SETTLEMENT APPEARS ONLY MILDLY INFLA-
TIONARY. COST-PUSH PRESSURES WILL BE GENERATED
BY THE WAGE AND SALARY INCREASES. ON THE DEMAND
SIDE THE STIMULUS TO CONSUMER SPENDING FROM THE
INCREASE IN TAKE-HOME PAY AND LOWER INTEREST RATES,
AND TO INVESTMENT DEMAND FROM TURNOVER TAX
RELIEF AND REDUCTION OF INTEREST RATES, WILL BE
ABSORBED WITH LITTLE INFLATIONARY IMPACT BECAUSE
OF THE SLACK IN THE COUNTRY'S RECESSED ECONOMY.
(INFLATION IN 1978 WAS PROJECTED BY THE GOVERNMENT
BEFORE THE SETTLEMENT AT EIGHT PERCENT AND
BY PRIVATE SOURCES AT TEN PERCENT.) THE MONETARY
EFFECTS FROM FMK 700 MILLION LOAN BY THE BANK OF
FINLAND MAY BE ABSORBED BY THE BANK, WHICH IN ANY
CASE INTENDED TO RELAX MONETARY POLICIES DURING THE

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YEAR.

C. IT WAS THE GOVERNMENT WHICH PICKED UP THE TAB; THE MOST IMPORTANT ECONOMIC EFFECT APPEARS TO BE THE FINANCING BURDEN IT ACCEPTED IN BORROWING FMK 700 MILLION FROM THE BANK OF FINLAND TO COVER REDUCTIONS IN SOCIAL SECURITY CONTRIBUTIONS AND REVENUE LOSS STEMMING FROM THE TURNOVER TAX RELIEFS BOTH FOR INDUSTRY AND FOR DAIRY PRODUCTS, AND IN UNDERWRITING A FMK 300 MILLION PUBLIC WORKS LOAN TO CITIES AND TOWN. THESE ARE FURTHER BURDENS ON THE GOVERNMENT, HARD-PRESSED IN RECENT MONTHS TO COVER CASH-FLOW SQUEEZES, AND EXPECTED TO STEP UP OVERSEAS BORROWING THIS YEAR TO A VOLUME UNCLASSIFIED

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OF AROUND FMK 2.5 BILLION FROM A LEVEL OF FMK 0.9 BILLION LAST YEAR. THEY ALSO REPRESENT A FURTHER SLIGHT INCREASE IN THE GRADUALLY GROWING PUBLIC AND PRIVATE DEBT HERE.

8. POLITICAL STRAINS WITHIN THE FOUR-PARTY GOVERNMENT HAVE INCREASED IN THE PROCESS OF PRODUCING THE ECONOMIC PACKAGE AND WAGE SETTLEMENT. NOT ONLY WAS THERE AN END TO THE COMMUNIST-SOCIAL DEMOCRAT UNANIMITY IN SAK WHICH CHARACTERIZED THE DECEMBER AGREEMENT, BUT THE CENTER PARTY EXPRESSED SHARP DISATISFACTION WITH THE SETTLEMENT CLAIMS BY THE AGRICULTURAL PRODUCERS FOR MORE COMPENSATION COULD PUT FURTHER DISTANCE BETWEEN THE CENTER AND ITS GOVERNMENT PARTNERS. HOWEVER, WITH THE CURRENT SETTLEMENT THE GOVERNMENT'S HOPE OF GETTING THROUGH THE SUMMER WITHOUT NEW ELECTIONS WILL PROBABLY BE REALIZED.
RIDGWAY

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